

Message Text

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PAGE 01 LISBON 03644 270926Z

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SUBJ: FINANCE AND ECONOMIC MINISTERS SPEAK ON ECONOMY

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SUMMARY: AUGUST 21 RADIO AND TV APPEARANCE BY FINANCE AND ECONOMIC MINISTERS COMPLEMENTED PRIME MINISTER'S SPEECH OF AUGUST 18 (REFTEL). REANIMATION OF ECONOMIC ACTIVITY IN FACE OF UNEMPLOYMENT WAS SEEN AS PRINCIPAL GOVERNMENT CONCERN. BUSINESS WILL HAVE TO DEMONSTRATE ITS EFFICIENCY AND "SOCIAL USEFULNESS" IN FACE OF STRONG UNIONS AND INDEPENDENT GOVERNMENT, BUT ANY CHANGES IN PRESENT SYSTEM WOULD BE RELATIVELY SLOW. NEED TO INCREASE CREDIT LIQUIDITY, BUT ALSO DESIRE TO STIMULATE DOMESTIC AGRICULTURE, CAUSED JUST-ANNOUNCED PRICE INCREASES ON BASIC COMMODITIES. THE BUDGET, BURDENED BY SALARY INCREASES AND CONTINUED MILITARY COMMITMENTS, WILL BE HELPED SOMEWHAT BY INITIAL TAX INCREASES, WITH MORE SUBSTANTIAL ONES PLANNED. THE BALANCE OF PAYMENTS HAS IMPROVED, WITH RENEWED FLOW OF

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PAGE 02 LISBON 03644 270926Z

EMIGRANT REMITTANCES DEMONSTRATING THEIR CONFIDENCE

IN COUNTRY'S FUTURE. GOOD FOREIGN EXCHANGE RESERVES, INCREASED BUYING POWER, END OF INTERNATIONAL ISOLATION, AND NEW POSSIBILITIES OF GOVERNMENT INVESTMENTS IN INFRASTRUCTURES ARE SEEN BY MINISTERS AS REASONS FOR CONFIDENCE. END SUMMARY.

1. IN AUGUST 21 RADIO AND TV APPEARANCE MINISTER OF ECONOMY RUI VILAR AND MINISTER OF FINANCE SILVA LOPES COMPLEMENTED PRIME MINISTER'S SPEECH OF AUGUST 18 (REFTEL). THEY EMPHASIZED POSITIVE ASPECTS OF PRESENT ECONOMIC SITUATION, CLARIFIED LEGAL STEPS BEING TAKEN TO IMPLEMENT ANNOUNCED AUSTERITY MEASURES, AND DESCRIBED ADDITIONAL MEASURES GOVERNMENT IS PUTTING INTO EFFECT OR STUDYING. ECONMIN EMPHASIZED THAT FUNDAMENTAL LINE OF GOVERNMENT'S ECONOMIC POLICY IS "REANIMATION OF THE ECONOMIC LIFE OF THE COUNTRY", AND ITS PRINCIPAL PROBLEM IS UNEMPLOYMENT.

2. BUSINESS CLIMATE. FINANCE MINISTER DISCUSSED CURRENT CLIMATE FOR BUSINESS AT SOME LENGTH, GIVING SOMEWHAT CLEARER PICTURE OF GOVERNMENT THINKING. INTERVIEWER ASKED WHETHER PORTUGUESE BUSINESSMEN, "IN A STATE OF SHOCK", ARE FACING "PUBLIC OPINION IN GENERAL HOSTILE TO CAPITALISM". SILVA LOPES REPLIED THAT THEY ARE FACING A NEW SITUATION OF STRONG, FREE UNIONS AND A GOVERNMENT INDEPENDENT OF THEM WHICH IS ENDING "PROTECTIONS AND FAVORITISMS", BUT THAT THEY ALSO FACE A CHALLENGE TO BE EFFICIENT AND SHOW THEIR "SOCIAL USEFULNESS". HE REFERRED VAGUELY TO IMPENDING CHANGES IN THE PRESENT SYSTEM OF FUNDAMENTALLY PRIVATE DECISION-MAKING, BUT POINTED OUT THAT SUCH SOCIAL-POLITICAL CHANGES WOULD HAVE TO BE RELATIVELY SLOW.

3. CREDIT CRUNCH. GREAT EMPHASIS WAS PLACED ON THE NEED FOR CREDIT TO "DYNAMIZE" THE ECONOMY, ESPECIALLY FOR SMALL AND MEDIUM BUSINESS. SILVA LOPES SAID THE GOVERNMENT HAD MADE PRICE INCREASES IN KEY COMMODITIES PRIMARILY TO REDUCE ITS

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PAGE 03 LISBON 03644 270926Z

DEFICIT AND PROVIDE MORE CREDIT RESOURCES. THE ECONMIN ADDED THAT INCREASES WERE ALSO DESIGNED TO STIMULATE DOMESTIC CEREALS PRODUCTION AND POSSIBLY BEGIN CULTIVATION OF SUGAR BEETS. SILVA LOPES RECOGNIZED THAT DESPITE THE GOVERNMENT'S INTENT TO PROTECT THE INTERESTS OF THE WORKING CLASSES, THEY WOULD BEAR A RELATIVELY HEAVIER BURDEN FROM THE PRICE INCREASES.

4. BUDGET. IN DISCUSSING THE BUDGET AT SOME LENGTH, THE FINMIN DESCRIBED PROBLEM CAUSED BY RECENT UNPRECEDENTED 40 PERCENT SALARY RAISE FOR CIVIL SERVANTS, WHICH MEANS AN ADDITIONAL BURDEN OF \$220 MILLION A YEAR. RE MILITARY EXPENDITURES, HE SAID THERE IS HOPE FOR SIGNIFICANT REDUCTIONS BEGINNING NEXT YEAR, BUT THERE WILL BE A SUBSTANTIAL INCREASE THIS YEAR, DUE TO PREVIOUS COMMITMENTS AND RECENT MILITARY SALARY RAISES. TO HELP ACHIEVE A SOMEWHAT BALANCED BUDGET WHILE ACHIEVING GREATER TAX EQUITY, INCOME TAXES WILL BE LOWERED FOR INCOMES OF BETWEEN \$2000 AND \$4000 AND RAISED ON THOSE OVER \$14,000. THE SUPPLEMENTARY TAX FOR SALARIES OVER \$6000 WILL ALSO BE SLIGHTLY INCREASED, AND TRANSACTIONS TAXES FOR LESS ESSENTIAL GOODS RAISED. HOWEVER, SILVA LOPES SAID THAT THESE INCREASES ARE NOT YET ANYWHERE NEAR WHAT WILL BE NECESSARY, AND THAT AMONG OTHER THINGS TAXES ON CORPORATE PROFITS AND INCOMES FROM STOCKS AND BONDS ARE BEING STUDIED.

5. BALANCE OF PAYMENTS. THE QUESTION OF CREDIT AVAILABILITY ALSO ROSE IN CONNECTION WITH THE BALANCE OF PAYMENTS. THE FINMIN DISCUSSED MONETARY PROBLEMS FACED IN THE LAST MONTHS OF THE OLD REGIME, ESPECIALLY A 6 BILLION ESCUDOS (\$240 MILLION) BOP DEFICIT IN FIRST QUARTER OF 1974. THE BANK OF PORTUGAL'S ISSUE OF MONEY ONLY PARTIALLY COVERED CAPITAL LOSS TO OVERSEAS WHICH CONTRIBUTED TO LACK OF CREDIT LIQUIDITY. BUT HE EMPHASIZED THAT CAPITAL LOSS HAD BECOME LESS IMPORTANT SINCE APRIL 25, DUE TO EASING UP ON UNCLASSIFIED

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PAGE 04 LISBON 03644 270926Z

SOME IMPORTS AND TO NON-MATERIALIZING OF CERTAIN UNSPECIFIED OPERATIONS. SILVA LOPES ALSO UNDERLINED THAT CONTRARY TO WHAT MANY PEOPLE THINK, EMIGRANT REMITTANCES ARE RETURNING AT A VERY ENCOURAGING RATE, INDICATING THAT "THE EMIGRANTS HAVE GREAT CONFIDENCE IN THE FUTURE OF OUR COUNTRY".

6. THE MINISTERS ENDED ON AN UPBEAT MANNER, CITING "GOOD REASONS FOR CONFIDENCE": THE COUNTRY'S GOOD FOREIGN EXCHANGE RESERVES, INCREASE IN BUYING POWER DUE TO WAGE INCREASES, END OF PORTUGAL'S INTERNATIONAL ISOLATION AND THE SUBSEQUENT HOPE OF NEW MARKETS, AND NEW POSSIBILITIES OF GOVERNMENT MAKING INVESTMENTS IN "INFRASTRUCTURES" BECAUSE OF DECOLONIALIZATION.

7. COMMENT: THE REMARKS OF THE MINISTERS OF
FINANCE AND ECONOMY, LIKE THE AUGUST 18 SPEECH
OF THE PRIME MINISTER'S (REFTEL) WHICH THESE
REMARKS WERE DESIGNED TO SUPPLEMENT, WERE MORE IN
THE NATURE OF A PEP TALK THAN A PLAN OF ACTION.
UNTIL THESE WORDS ARE BACKED WITH LAWS AND ACTIONS,
THE BUSNISS COMMUNITY, WHOM THE WORDS IN LARGE
PART ARE DESIGNED TO REASSURE, WILL REMAIN SCEPTICAL.
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